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Fighting poverty in emerging markets

The gloves go on

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Lessons from Brazil, China and India

AT THE recent food summit in Rome, President Luiz Inácio Lula da Silva donned a pair of bright-red boxing gloves labelled "Hunger Free" and waved to the cameras. They were his prize—if that is the right term—for Brazil's success in topping a league table drawn up by ActionAid, a British charity, of countries that have done most to reduce hunger*. The occasion was a stunt, of course, but had a serious purpose: to show that even the poorest places can mitigate poverty and hunger. (Brazil is not in that category, but Ghana, Vietnam and Malawi—which came third, fourth and fifth—are.)

ActionAid's list was inevitably influenced by the sort of things that NGOs love: social-protection programmes, constitutional and legal guarantees against poverty, the rejection of free markets. But now comes a more rigorous assessment of poverty-reduction in Brazil, China and India by Martin Ravallion, the director of the World Bank's Development Research Group†. It also suggests that hunger is not simply something that growth will take care of. Mr Ravallion shows that the performance of the giants varies a lot more than their growth. And he too regards Brazil's performance as exceptional.

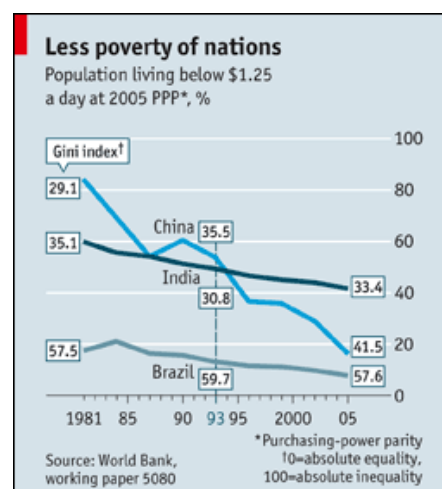
Between them, Brazil, China and India account for half the world's poorest people and an even bigger share of those who have escaped poverty. In 1981, 84% of China's population was below the poverty line of \$1.25 a day (in 2005 prices); in 2005 the share was just 16% (see chart). This amounted to a 6.6% proportionate annual rate of poverty reduction—the difference between the growth rates of the number of poor and the total population.

Nobody did as well as China. Brazil's share of those in poverty fell by half from 17% to 8%, an annual reduction of 3.2%. India did least well, cutting the share below the poverty line from 60% to 42% between 1981 and 2005. This implies an annual reduction of 1.5% a year, though there are problems with Indian statistics; using different consumption figures yields an annual reduction of 3%, comparable to Brazil's.

As Mr Ravallion points out, these figures do not mirror growth rates. Brazil cut poverty by more than India despite much lower growth, just over 1% a year in 1993-2005, compared with India's 5%. If you calculate the rate of poverty reduction for each unit of GDP growth per person, Brazil did even better than China: the ratio is 4.3 for Brazil, 0.8 for China and 0.4 for India (0.8 if you use the adjusted consumption figures). Per unit of growth, Brazil reduced its proportional poverty rate five times more than China or India did.

How did it do so well? The main explanation has to do with inequality. This (as measured by the Gini index, also marked on the chart) has fallen sharply in Brazil since 1993, while it has soared in China and risen in India. Greater inequality dampens the poverty-reducing effect of growth.

Government policy played a big role in reducing inequality. Brazil's main cash-transfer programme, called Bolsa Familia, provides help to 11m families, or 60% of all those in the poorest tenth. In contrast, social security in China is still provided largely through the enterprise system (ie, companies), so it tends to bypass those not in work. And government interventions in India are extraordinarily perverse. People in the poorest fifth are the least likely to have any kind of ration card (the key to public handouts), whereas the richest fifth are the most likely to.



Mr Ravallion concludes with some useful lessons. In all three countries, economic stability made a big difference for the better. China cut poverty the most, but did best early on, when agriculture was growing fastest. As growth shifted towards the cities and manufacturing, inequality rose. It might have done even better with Brazilian-style "progressive" policies. India had both growth and social policies, yet did worst because its policies in fact did rather little to help the poor. With its caste system, and bad state schools, India may be a more unequal society than the numbers alone suggest. Both Asian countries could learn some lessons from Brazil. But Brazil, in turn, will not be able to match China's record in reducing the number of poor people without higher growth.

* "[Who's really fighting hunger?](http://www.actionaid.org)" www.actionaid.org

† "[A comparative perspective on poverty reduction in Brazil, China and India](http://econ.worldbank.org)". By Martin Ravallion. Policy Research Working Paper 5080. econ.worldbank.org.

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